Bovis Corporation Limited

1976 ANNUAL REPORT

Bovis Corporation Limited

Bovis Corporation Limited
and
McNamara Corporation Limited
255 Consumers Road
Willowdale, Ontario
Telephone – 493-2770

Bovis Corporation Limited

Interim Report to Shareholders

Six Months

Ended June 30th, 1976

Bovis Corporation Limited

President's Report

The unaudited second quarter 1976 loss of $1,317,000 brings the loss to the end of the first half of 1976 to $3,514,000. This compares with a loss of $322,000 for the same period last year, a deterioration of $3,192,000. The major items contributing to this deterioration were continuing problems with the equipment supply operations, the discontinuance and disposition of certain unprofitable operations and increased interest expense.

Management changes have been made and programs implemented to reduce inventory levels in the equipment operation and to dispose of certain property assets. Agreements for the sale of some properties are already in hand and will generate profits and cash flow in the third quarter. By year-end, considerable debt reduction with a resultant decrease in interest and other carrying costs will have been accomplished.

Although we forecast profits for the third and fourth quarter of 1976 it appears unlikely that these will be sufficient to completely offset the losses suffered to date. We believe that the programs now being implemented should result in substantially improved operating results in 1977.

On behalf of the Board,

President & Chief Executive Officer

Unaudited Consolidated Statement of Earnings

for the six months ended June 30, 1976

	1976	**1975**
Gross Revenue	$33,863,000	$36,920,000
Earnings from operations before the undernoted	$ (2,020,000)	$ 576,000
Equity in net earnings of unconsolidated subsidiaries and of Consolidated Building Corporation	500,000	216,000
	$ (1,520,000)	$ 792,000
Depreciation	(956,000)	(786,000)
Interest expense	(728,000)	(328,000)
Loss on discontinuance and disposition of certain operations	(310,000)	—
Net Loss to June 30	$ (3,514,000)	$ (322,000)
Net Loss per Share	(24.9¢)	(2.3¢)

Unaudited Consolidated Statement of Changes in Financial Position

for the six months ended June 30, 1976

	1976	**1975**
Source of Funds:		
Net loss from operations	$(3,514,000)	$ (322,000)
Depreciation	956,000	786,000
Sales of fixed assets	1,004,000	38,000
Reduction (increase) in accounts receivable and inventories of equipment and materials	2,451,000	(8,731,000)
Increase in bank borrowings	8,999,000	9,354,000
	$ 9,896,000	$ 1,125,000
Application of Funds:		
Purchase of fixed assets	$ 507,000	$ 2,359,000
Increase (reduction) in real estate inventories and assets less related mortgages payable	63,000	776,000
Reduction (increase) in accounts payable and accrued charges	7,697,000	(3,647,000)
Net Change in other assets and liabilities	1,629,000	1,637,000
	$ 9,896,000	$ 1,125,000

Boyis Corporation Limited

BOARD OF DIRECTORS

R.L. Beaulieu, Q.C.

H.G. Emerson

R. MacTavish

R.F. Martin

Wm. V. Moore

E.A. Payne

M. Paris (London, England)

E.J. Spence

OFFICERS OF THE COMPANY

R. MacTAVISH
President & Chief Executive Officer

C.L. LISTER
Vice-President, Finance, & Secretary

R.F. MARTIN
Vice-President

J.W. WHITE
Vice-President

D.H. FREDERICK
Vice-President

W.B. DILLY
Vice-President

CORPORATE OFFICES

255 Consumers Road, Willowdale, Ontario Telephone: (416) 493-2770
Telex: 06966856

Auditors:
Touche Ross & Co.

Bankers:
The Royal Bank of Canada
The Mercantile Bank of Canada

Transfer Agents and Registrar:
Crown Trust Company,
302 Bay Street, Toronto, Ontario

Transfer Agent (U.S.A.):
The Bank of New York,
90 Washington Street,
New York City, New York

Bonding Company:
Travelers Indemnity Company of Canada

Contents

To Our Shareholders

For the year ended December 31, 1976, Bovis Corporation Limited had a net loss of $14,970,000 on gross revenues of $86,595,000, compared with a loss of $2,927,000 on gross revenues of $90,484,000 for 1975. Included in the 1976 loss is a loss of $9,861,000 from discontinued operations which includes a provision of $7,700,000 to cover costs and losses relating to discontinued operations.

As a result of management's decision to fully provide for all present and estimated future losses on the discontinued operations in 1976, the consolidated net worth of your Company has been reduced to $18,635,000 or $1.32 per share as at December 31, 1976 compared with $33,554,000 or $2.40 per share as at December 31, 1975.

Although 1976 results were certainly a severe disappointment by any standards, management believes that the necessary steps were taken in 1976 to start the Company back to a profitable operation. Decisions were made to discontinue all of our Housing and certain Commercial Property operations, Keele Lumber, Environmental Equipment, and all but the main equipment lines carried by General Supply and Equipement Federal. As at December 31st, 1976 our Keele Lumber, Environmental Equipment and London Housing Division had been successfully sold to third parties with a minimal loss to the Company. On December 31st, 1976, we also sold our Toronto Housing operations to a company owned and operated by K. Pain, the previous General Manager of our Toronto Housing Division, and his key employees. This sale was particularly gratifying to the management of Bovis, since it ensures a continuity of services to previous purchasers of Bovis Homes. Title to the houses and properties sold to The Kenneth Pain Group Inc., remain with Bovis Corporation Limited until a sale is made to third parties.

During 1976, the Company disposed of Commercial Properties with a book value of over $13 million. Every effort will be made to assure that all remaining disposals will be achieved by the end of 1978. The loss for 1976 includes provisions to cover estimated losses on sales of Commercial Properties and provisions for the future costs associated with these sales.

The litigation as described in Note 18 to the balance sheet in connection with charges of conspiracy to defraud the Governments of Canada and Ontario is still continuing. The Company is taking every measure to assure we are adequately defended.

Management is pleased to announce the resolution of litigation involving a wholly-owned subsidiary of the Corporation. On May 20th, 1977, the Superior Court of the State of California in San Francisco signed a stipulated judgment in the amount of $16,300,000 in favour of a joint venture of which the subsidiary is the sponsor. The judgment was the culmination of lengthy litigation arising out of the construction of an underground powerhouse at Oroville Dam in California.

The subsidiary, as sponsor of the joint venture, will shortly be entitled to funds somewhat in excess of $10,000,000 as a result of payment of the stipulated judgment to the joint venture. The extent to which the funds may be subject to tax has not yet been determined.

As the litigation was not resolved until after the audit of the Corporation had been completed, no recognition of the award is contained in the financial statements accompanying this report.

Review of Operations

Newfoundland Construction Division

The Construction Division of McNamara Corporation of Newfoundland Limited ended the year with a satisfactory profit on a volume of $15 million. The major project worked on was

the large $11 million Baie d'Espoir contract for the Newfoundland Power Corporation. This contract was carried over from 1975 and approximately 65% of the work was completed in 1976. The remainder is scheduled for completion by September, 1977. Other significant contracts were for the St. John's Water Supply and St. John's Environmental Centre. Both of these contracts were also carry-overs from 1975. As predicted in our 1975 Annual Report, the volume of new work obtained in 1976 was not heavy because of fiscal spending cutbacks by the Newfoundland Government, and the Division entered 1977 with a relatively low volume of carry-forward work.

In spite of the low carry-over and the fact that their volume is largely dependent on Federal/Provincial spending programs, particularly the upgrading of the Trans Canada Highway system in Newfoundland, Division Management anticipates 1977 results will be comparable to 1976. The carryover from 1976 and new contracts awarded in 1977 already exceed 50% of their planned volume for 1977.

Concrete Products

1976 proved to be another successful year at Concrete Products in St. John's, Newfoundland. The Division earned good profits on a volume of $5.5 million. Volume of readi-mix concrete increased slightly over 1975 and two new 11 cubic yard readi-mix units were added to the mixer fleet.

The crushing operation at Holyrood worked at full capacity during the year, producing over 200,000 tons of concrete aggregate. Approximately 20,000 tons of road gravel were also produced and supplied to the municipality for use in its asphalt paving.

Sales of concrete block remain in line with 1975 and automation of the plant's batching equipment was started late in the season. Modernization of most other areas of the block operation was completed in 1975.

The outlook for 1977 looks favourable at this time, with work started on several large shopping centres and the second stage of the Holyrood Generating Station. Plans are also being prepared for a new Taxation Data Centre, and a Polytechnical Institute which may start in 1977. An increase in the housing market is also expected at mid-year.

McNamara Industries

After a record year in 1975, our steel fabrication and erection operations in St. John's, Newfoundland, suffered a 25% slump in sales in 1976 but still remained profitable on a volume of $4.9 million. The decrease in activity was common to the steel fabrication industry in Newfoundland. Work was mainly confined to the St. John's area and included projects completed on office buildings, schools, warehouses, tanks, machine shops and final stages of shaftsteel supply for the discontinued Strait of Belle Isle Cable Crossing, and the major municipal parking garage in downtown St. John's.

Although there is little work carried over into 1977 from the previous year, and the outlook for 1977 appears relatively slow, the Division Management is confident they will get their share of the jobs which do materialize and will continue to show a profit in 1977.

McNamara Marine

With volume of work down by almost 50% from 1975 and severe problems encountered on two major dredging projects in Chicoutimi and Quebec City, McNamara Marine in Whitby, Ontario, concluded a disappointing year in 1976. Approximately 50% of the project at

Chicoutimi remains to be completed in 1977; however, full provision for possible losses on this job have been reported in 1976. During the year other projects were completed in Meteghan, N.S., Grimsby, Hamilton, and Oshawa, Ontario, Cap Charles and the large Bruce Intake job near Douglas Point (a joint venture).

Because of the low volume of work in 1976, the division has made severe cutbacks in personnel, other overhead and development costs and successfully negotiated the sale of a portion of their surplus marine fleet in 1977. New policies and procedures have been developed with a fresh outlook toward the competitive future in the dredging and marine construction industry.

The present management and personnel of McNamara Marine are entering a difficult year but are optimistic and determined to turn this highly specialized business around in 1977.

Equipement Federal/General Supply

The heavy construction equipment distribution divisions contributed heavily to the 1976 operating loss of Bovis Corporation, principally due to the excessive equipment inventory position and the resultant interest burden. Although total inventories reduced from approximately $25 million at December 31, 1975 to $17 million at December 31, 1976, they are still too high. The Divisions have dropped over twenty product lines during 1976 and every effort is being made toward further reduction in the equipment inventories through concentrated sales efforts and tight ordering controls.

In order to improve the profit performance of this large equipment distribution operation, additional improvements were implemented during 1976; significant reductions in personnel and overhead in both Ontario and Quebec; recruitment of new senior management personnel and improvement in operational controls; complete separation of the operations in Ontario and Quebec in order to more effectively address the respective market opportunities in each Province.

While the excess inventory will continue to affect profitability in 1977, it is anticipated that these Divisions will become profitable by 1978.

Control and Metering

Control and Metering experienced volume and profit growth during 1976 contributing modest profits on a volume of $2.9 million.

Control and Metering supplies water pollution control equipment that is engineered into a system. Most equipment is sold on an exclusive basis throughout Eastern Canada, with the traditional strength in the instrumentation and chemical metering areas. In 1976 the scope was expanded to include key proprietary process products, and the Division commenced its operation in the Province of Quebec through Aquaclaire Ltée which opened in June.

While the last half of 1976 evidenced tight municipal budgets, this situation appears to be improving by the second quarter of 1977. Aquaclaire Ltée has several products specified and will be bidding several million dollars of equipment and systems during 1977 for the Montreal Urban Community huge sewage treatment project. Continued growth and profit contribution is anticipated from this division in 1977.

Residential Property Division

In spite of the weak residential market throughout Ontario and Quebec, the Residential Property Division continued to show strength and produced substantial profits on a volume of

$4.7 million during 1976. The strength of this division is attributable in large part to the strategic location of its land holdings.

All of the 265 lots in the first phase of Cambrian Hills have been sold to five different house builders and it is expected to be completely built up by the end of 1977, producing another fine Bovis development in the City of Cambridge.

Final stages of Acton Meadows, the first residential land development undertaken by this division in Acton, Ontario, in 1973, were completed in 1976 adding 200 quality homes to this community.

Consolidated Building Corporation

During the year, our holdings in Consolidated Building Corporation were increased to 30% of the issued shares. Our equity share of the earnings of Consolidated Building Corporation almost doubled in 1976 to $798 thousand and we continue to be satisfied with the current results and long-term potential of this investment.

Conclusion

The severe adverse economic conditions that have prevailed in 1976 and to date in 1977, coupled with our excess inventory in General Supply and the effort of your management towards the final clean-up of discontinued operations, will make 1977 another unsatisfactory year.

However, we are optimistic about the outlook of our ongoing operations. Your Company should have greatly improved operating results in 1977 as compared with 1976 and a sound base from which to grow in the future.

In late 1976, Mr. Harold McNamara announced his retirement and ceased active participation as an officer and director of your Company. In his 33 years of service, Mr. McNamara's contributions have been many and varied and I am sure all shareholders, directors and employees join with me in expressing our appreciation for his past efforts and our best wishes for his retirement years.

The vacancy created by Mr. McNamara's retirement from the Board of Directors has not been filled, since, at the time of his retirement, your Board concluded that a smaller complement of Board members would be able to deal more effectively with the problems created by our present circumstances. At the coming Annual Meeting, shareholders' approval will be requested for a reduction in the Board from twelve to seven directors, and further details of this change are contained in your proxy material.

On behalf of management, I would like to express our sincere appreciation to your Board of Directors and all of our faithful employees who have performed admirably during a difficult year.

Respectfully yours,

R. MacTavish

R. MacTavish
President and Chief Executive Officer

Bovis Corporation Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 1976
[with comparative figures for 1975]

ASSETS		1976	1975
CURRENT			
Accounts and notes receivable, including $1,727,000 retained by customers in accordance with contract provisions (1975 — $1,695,000)		$10,564,000	$ 18,795,000
Inventories		15,609,000	28,328,000
Construction contracts in progress		167,000	206,000
Investment in construction joint ventures		101,000	833,000
Prepaid expenses		259,000	329,000
Assets held for disposal at estimated realizable value (Note 2)		24,535,000	—
Property for sale or under development		5,389,000	22,899,000
Receivable on agreement for sale of Ontario Housing Division (Note 3)		2,750,000	—
Current portion of mortgages receivable		2,266,000	3,065,000
		61,640,000	74,455,000
Mortgages receivable, net of current portion (Note 4)		2,517,000	4,987,000
Income producing properties		—	5,353,000
Land held for future development		4,407,000	9,745,000
Sundry Assets		337,000	385,000
Loans re share participation plan (Note 5)		457,000	827,000
Investment in unconsolidated subsidiary company		358,000	350,000
Investment in Consolidated Building Corporation Limited (Note 17 a)		8,977,000	8,051,000
Property, plant and equipment	$31,414,000		
Less accumulated depreciation	19,508,000		
		11,906,000	13,304,000
		$90,599,000	$117,457,000

On behalf of the Board

.... Director

.... Director

See accompanying notes to c

AUDITORS' REPORT

The Shareholders,
Bovis Corporation Limited.

We have examined the consolidated statement of financial position of Bovis Corporation Limited as at December 31, 1976 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. As explained in Note 1 a (ii), the fiscal year-end of the associated company is February 28; consequently, the Company's equity in the earnings of this company has been determined from unaudited financial statements.

LIABILITIES	1976	1975
CURRENT		
Bank indebtedness (Note 6)	$17,942,000	$ 13,089,000
Accounts, notes payable and accrued charges (Note 7)	23,084,000	34,214,000
Indebtedness on assets held for disposal, including bank indebtedness of $1,242,000 (Note 2)	17,579,000	—
Mortgages on property for sale or under development (Note 8)	1,740,000	17,743,000
Current portion of term bank loans	1,000,000	1,000,000
	61,345,000	66,046,000
Deferred Income (Note 9)	4,090,000	4,767,000
Term Bank Loans (Note 6)	2,500,000	3,500,000
Other mortgages and obligations (Note 10)	1,587,000	5,953,000
Mortgages on land held for future development (Note 11)	2,442,000	3,616,000
Minority interest in subsidiary company	—	21,000
SHAREHOLDERS' EQUITY		
Capital stock (Note 5)		
Authorized 15,000,000 shares without par value		
Issued 14,097,516 shares (1975 — 13,955,916 shares)	20,614,000	20,487,000
Contributed surplus	8,179,000	8,179,000
	28,793,000	28,666,000
Deficit (retained earnings)	10,082,000	(4,888,000)
	18,711,000	33,554,000
Less 85,966 shares acquired during the year, at cost	76,000	—
	18,635,000	33,554,000
	$90,599,000	$117,457,000

dated financial statements.

In our opinion, except for the effect of any adjustments upon audit of the financial statements of the associated company, and subject to the resolution of the matters described in Note 18, these consolidated financial statements present fairly the financial position of Bovis Corporation Limited as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
March 7, 1977.

Coopers Lybrand & Co

Chartered Accountants.

Bovis Corporation Limited

CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1976
[*with comparative figures for 1975*]

	1976	1975
Gross revenue (Note 14)	$55,622,000	$63,083,000
Costs and expenses		
Cost of sales and other expenses	56,692,000	58,103,000
Depreciation	2,430,000	2,595,000
Interest	2,407,000	1,253,000
Equity in earnings of Consolidated Building Corporation Limited	(798,000)	(452,000)
	60,731,000	61,499,000
Loss (earnings) from ongoing operations	5,109,000	(1,584,000)
Loss from discontinued operations (Note 2)	9,861,000	4,511,000
Net loss for the year	14,970,000	2,927,000
Retained earnings at beginning of year	4,888,000	7,815,000
Deficit (retained earnings) at end of year	$10,082,000	($ 4,888,000)
Net loss per share (Note 15)	$1.07	$0.21

See accompanying notes to consolidated financial statements.

Bovis Corporation Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1976
[*with comparative figures for 1975*]

	1976	1975
USE OF FUNDS		
To operations		
Ongoing		
Loss (earnings)	$ 5,109,000	($ 1,584,000)
Depreciation	(2,430,000)	(2,595,000)
Equity in earnings of affiliated company	798,000	452,000
	3,477,000	(3,727,000)
Discontinued		
Loss	9,861,000	4,511,000
Depreciation	(54,000)	(136,000)
	9,807,000	4,375,000
Reduction in net assets of discontinued operations	(7,863,000)	—
	1,944,000	4,375,000
	5,421,000	648,000
Purchase of property, plant and equipment, net	1,769,000	5,396,000
Investment in Consolidated Building Corporation Limited, net of dividends	128,000	293,000
Purchase of shares	76,000	—
	7,394,000	6,337,000
SOURCE OF FUNDS		
Reduction in net assets of ongoing operations	2,299,000	1,473,000
Increase in bank borrowings	5,095,000	4,864,000
Bank indebtedness, including term loan at beginning of year	17,589,000	12,725,000
Bank indebtedness, including term loan at end of year	$22,684,000	$17,589,000

See accompanying notes to consolidated financial statements.

Bovis Corporation Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1976

1. Summary of significant accounting policies

a) Consolidation

The consolidated financial statements include:

(i) The accounts of the Company and its subsidiary companies except for the results of a partially-owned subsidiary company which is not consolidated. The Company's 51% interest in this subsidiary company, a non-producing mining company in the exploration stage, is stated in the accounts at the Company's share of equity.

(ii) The equity share of earnings of Consolidated Building Corporation Limited. The Company has included in earnings its 30% equity interest in this associated company's earnings for the twelve months ended November 30, 1976 after amortization of $142,000 (1975 - $156,000) of the excess of the value of the investment over the underlying equity in the net assets at the date of acquisition. The total excess is being amortized over a period not exceeding twenty years. The fiscal year-end of the associated company is February 28. Consequently, the determination of earnings was based on unaudited financial statements as at November 30, 1976.

(iii) The proportionate share of the assets, liabilities, revenues and expenses pertaining to the Company's undivided interests in commercial property joint ventures.

(iv) The advances to construction joint ventures adjusted by the Company's share of earnings or losses to date.

b) Recognition of income

(i) Income from construction projects and construction joint ventures is recognized on the percentage of completion method.

(ii) It is the policy of the Company not to reflect construction claims in the financial statements until the compensation has been awarded, but to expense the costs relating to such claims as incurred. However, although the California Superior Court has awarded a subsidiary company of the Company a substantial claim on the Oroville Dam project, and although the Appeal Court of California has confirmed the award in all significant aspects, no amount has been included in income because the State has a further right of appeal and the outcome is still uncertain.

(iii) The Company's accounting policies relating to its property development and housing activities have been established in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies.

The Company follows the policy of capitalizing as part of the cost of property for sale or under development and land held for future development:

— direct carrying costs such as mortgage interest, realty taxes and other costs which pertain to such properties, and

— interest on general borrowings considered applicable.

The total of such costs included in the cost of properties held for sale or under development or land held for future development as at December 31, 1976 amounted to $1,581,000 (1975 - $1,624,000).

(iv) Income from housing and property transactions is recognized as follows:

Income properties	— when 70% occupancy is attained or within a reasonable maximum period of time after completion.
House sales	— at the date of closing.
Land sales	— when all material conditions have been fulfilled, at least 15% of the purchased price has been received and interest is accruing at a reasonable rate on the balance due under the sale.

c) Inventories and construction contracts in progress are valued at the lower of cost and net realizable value.

d) Property, plant and equipment is stated at cost and depreciated over the estimated useful life of the related assets on the diminishing-balance method for substantially all assets and the straight-line method for marine equipment. Plant and equipment under lease, where it is the intention to exercise the related options to purchase, are capitalized and depreciated. Expenditures for maintenance and repairs which do not materially extend the life of assets are charged to operations.

2. Discontinued operations

a) In 1976 the Company made the decision to discontinue and dispose of specified operations. These include a substantial number of lines of equipment and the commercial property and housing operations. The losses from these operations prior to the decision to discontinue and the costs

incurred and expected to be incurred in future periods, on an orderly disposition of these businesses have been recognized in the consolidated statement of earnings under the caption of "loss from discontinued operations". In the following summary of the discontinued operations, the 1975 consolidated financial statements have been restated to conform with the current year's presentation.

	1976	1975
Net sales	$30,973,000	$27,401,000
Costs and expenses	40,834,000	31,912,000
Net loss	$ 9,861,000	$ 4,511,000

The above costs and expenses include depreciation and interest of $54,000 and $1,655,000 respectively (1975 - $136,000 and $1,524,000 respectively).

b) The remaining assets of the discontinued businesses are valued at estimated net realizable values and are grouped on the financial statements under the caption "assets held for disposal" and include:

Inventories of equipment	$ 5,211,000
Commercial property and housing assets	24,342,000
Mortgage loans	2,721,000
	32,274,000
Provision for future costs and losses	7,739,000
	$24,535,000

c) The indebtedness on assets held for disposal includes:

Mortgages and mortgage advances on commercial property and housing assets, including share of joint venture obligations of $1,205,000 (The average rate of interest on these mortgages and advances is 12.39%)	$14,010,000
Chattel mortgages on discontinued lines of equipment	2,327,000
Bank loan secured by mortgage loan portfolio of a subsidiary company	1,242,000
	$17,579,000

3. Receivable on agreement for sale of Ontario Housing Division

Under an agreement of sale made as of December 31, 1976 the assets of the Bovis Ontario Housing Division were agreed to be sold for $5,730,000. Mortgage advances of $2,885,000 and other liabilities of $95,000 were assumed by the purchaser as partial consideration for the purchase. The balance of $2,750,000 is payable as the assets are sold by the purchaser to third parties with minimum monthly instalments of varying amounts and with maturity December 31, 1977. Title to these assets remains with the Company until full payment has been received (see also Note 9 b).

4. Mortgages receivable

	1976	1975
Mortgages receivable	$4,783,000	$8,052,000
Average rate of interest	9.70%	11.10%

5. Share participation plan

The Company has two share participation plans under which 720,000 were reserved. The original plan became effective in 1971 and the second plan in 1975. The Company provides interest-free loans to officers and key employees to enable the purchase of shares.

Under the original plan, the loans may be repaid at any time and mature ten years from the purchase date. The shares purchased are held by a trustee and may be released to the employee at a rate of up to 20% per annum commencing one year after the purchase date, provided a pro rata payment on account of the loan is received.

Under the second plan, loans are repayable by monthly payroll deduction over a five-year period or sooner, at the option of the employee. Shares purchased are held by a trustee and may be released to the employee in the equivalent percentage to the repayment of his loan.

Shares reserved, issued and released under these plans are as follows:

	Original plan	Second plan	Total
Reserved	520,000	200,000	720,000
Issued and held by trustee at January 1, 1976	496,756	—	496,756
Issued during the year for $126,000	—	141,600	141,600
	496,756	141,600	638,356
Shares released during the year	85,966	47,700	133,666
Issued and held by trustee at December 31, 1976	410,790	93,900	504,690

Loans outstanding to officers and key employees at December 31, 1976 in connection with the purchase of shares were $457,000 (of which $146,000 was to officers who are also directors). The 504,690 shares held by the trustee include 279,684 shares held against the afore-mentioned loans. The remaining shares are held against unpaid loans of $158,000 made to former officers and key employees.

Employees who are terminated by the Company are indemnified against loss under both plans should the proceeds on the ultimate sale of the shares by the trustee be less than the employee's related outstanding loan.

6. Bank indebtedness, including term loans

The bank indebtedness, including term loans, is secured by accounts receivable, shares of Consolidated Building Corporation Limited, specified land and premises and a first floating charge on the assets of the Company and operating subsidiary companies. The term loan is repayable $1,000,000 per annum up to 1978 and the balance in 1979.

The Company has given covenants to its bankers that provide, among other things, for the maintenance of a minimum level of shareholders' equity and level of debt, as defined, to shareholders' equity. As at December 31, 1976 the Company's financial position did not satisfy these covenants; consequently, the outstanding term loan at that date could, at the request of the Company's bankers, be a current liability. The Company is restricted, among other things, from paying dividends without their prior approval.

7. Accounts, notes payable and accrued charges

The accounts and notes payable include approximately $9,358,000 (1975 — $18,000,000) due to equipment suppliers and finance companies, which are secured by inventories of equipment.

8. Mortgages on property for sale or under development

	1976	1975
Mortgages on property for sale or under development — a	$1,740,000	$ 5,917,000
Mortgage advances on houses under construction — b	—	4,846,000
Share of mortgages on property under development in commercial property joint ventures — b	—	6,980,000
	$1,740,000	$17,743,000

a) Mortgages on property for sale or under development will be discharged out of proceeds of sales which, it is anticipated, will be obtained prior to the maturity date of these liabilities. The average rate of interest on these mortgages is 9.55% (1975 — 11.65%).

b) The 1975 mortgage obligations on houses under construction and commercial properties reppresent liabilities of discontinued business in 1976 which are detailed in Note 2.

9. Deferred income

a) The Company sold and leased back certain marine equipment in prior years. The excess of the proceeds of sales over net book value has been included in deferred income and is being taken into earnings on a straight-line basis over the terms of the eight-year leases. The Company has options to repurchase for $2,250,000 at the end of the lease periods.

b) Deferred income on agreement for sale represents the net income on the disposition of the Ontario Housing Division and will be taken into earnings as proceeds of sale are realized.

10. Other mortgages and obligations

This represents mortgages and capitalized lease obligations on plant and equipment. These balances bear interest at an average rate of 11.75% and are repayable as to principal approximately as follows:

1977	$ 413,000
1978	362,000
1979	332,000
1980	227,000
1981 and thereafter	253,000
	$1,587,000

11. Mortgages on land held for future development

The balances at December 31, 1976 bear interest at an average rate of 9.62% and are repayable as to principal approximately as follows:

1977	$ 627,000
1978	861,000
1979	270,000
1980	181,000
1981 and thereafter	503,000
	$2,442,000

12. Remuneration of directors and senior officers

Remuneration of directors and senior officers (as defined by The Business Corporations Act — Ontario) from the Company and its subsidiary companies for the year totalled $492,000 (1975 — $504,000). Former directors and senior officers received aggregate remuneration, including severance allowances, of $385,000 during the year.

13. Pension plan

Based upon actuarial valuation of the Company's pension plan as at December 31, 1975, the unfunded liability as at December 31, 1976 amounts to approximately $550,000. However, in view of substantial reductions in the number of plan participants during 1976, and improved performance by the plan during the year, management believes this balance to be overstated. The amount ultimately determined as unfunded will be substantially paid and expensed by equal annual instalments over the ensuing five years.

14. Gross revenue

The gross revenue by class of business is broken down as follows:

	1976	%	1975	%
Construction	$24,093,000	43.3	$25,268,000	40.1
Marine dredging	1,949,000	3.5	3,066,000	4.8
Sales of equipment	16,219,000	29.2	22,061,000	35.0
Sales of building materials	8,617,000	15.5	7,275,000	11.5
Property development	4,744,000	8.5	5,413,000	8.6
	$55,622,000	100.0	$63,083,000	100.0
Discontinued operations (Note 2)	$30,973,000		$27,401,000	

15. Loss per share

Loss per share has been calculated on the basis of the weighted average number of shares outstanding during the periods.

16. Income taxes

At December 31, 1976 the Company and its subsidiary companies, in aggregate, had a net unrecorded deferred tax debit of approximately $9,000,000. The principal item contributing to this net unrecorded tax debit is the existence of losses for tax purposes from the current and prior years.

The ultimate reductions of income taxes which may result from the use of these losses will be included in income as extraordinary items when, and to the extent that, they are realized.

17. Commitments and contingencies

a) The Company, through agreement with certain shareholders of Consolidated Building Corporation Limited, has agreed to purchase 290,000 common shares (net of 200,000 shares acquired during 1976 and prior years at $4.00 per share) on or before August 29, 1978, at a purchase price equal to the greater of $4.00 per share or the market value per share and has been granted a right of first refusal on sale for not less than an additional 510,000 common shares. As part of the agreement, the Company has guaranteed bank loans in the amount of $941,000 to the vendor. As the 290,000 common shares are acquired by the Company, the bank loans will be repaid.

b) The Company is jointly and severally liable for the obligations of the commercial property joint ventures referred to in Note 1 a (iii). As at December 31, 1976, the Company's contingent liability with respect to these obligations totalled approximately $1,200,000. Against this contingent liability the Company has a right to the related assets of the joint ventures.

c) The long-term lease commitments of the Company consist of the marine equipment leases (see Note 9) and various non-capitalized leases on other equipment and premises used by the operating divisions. The aggregate annual lease cost of these commitments is estimated to be approximately $2,686,000.

d) The Company is contingently liable under recourse provisions of conditional sales contracts. The amount of such contracts outstanding at December 31, 1976 was approximately $1,500,000.

e) The Company is contingently liable with respect to letters of guarantee in the amount of $1,312,000.

18. Litigation

In March 1975, a subsidiary of the Company was charged together with twelve other companies, with conspiring to defraud the Government of Canada, the Government of the Province of Ontario and the Toronto and Hamilton Harbour Commissions in connection with certain dredging contracts. The proceedings and related civil actions are at a prelimenary stage and the ultimate liability, if any, of the subsidiary company cannot now be determined.

19. Anti-Inflation Legislation

The Company and its subsidiary companies are subject to the Federal Government's Anti-Inflation Legislation, which became effective October 14, 1975, which limits or requires justification for increases in profits, compensation and dividends.

20. Comparative figures

The 1975 figures have been restated to conform with the 1976 presentation.

Printed in Cana